THE CHANGING WORLD OF CYBERSQUATTING USUAL METHODS, NEW PHENOMENA AND POSSIBLE ANSWERS

by

BÁLINT HALÁSZ

Introduction [1]

Short History and Overview of the Domain Name System [1.1]

At the time the Internet was born, it was a plain US governmental development. Within several years it had turned into a research and data-exchange network among universities and other academic organizations. The network gained a public face in the 1990s and by late 1994 there was growing public interest in the previously academic/technical Internet. In the middle of the 90's the availability and importance of the Internet began to expand very rapidly.

The elemental building block of the Internet is the Internet Protocol (IP) address. All participating network devices – including routers, computers and printers – have their own unique address.[1] The main benefits of the current IP system are i.a. on the one hand, that computers are able to easily identify each other and on the other hand that no confusion could occur at technical levels, given that every single device has its unique identifier. IP addresses, however, are hard for humans to remember. This need revived the Domain Name System (DNS) of the 1980's, with which servers became available not only under IP addresses consisting of numbers (e.g. 192.0.34.163) but under strings like icann.org as well. The system which we still use today for mapping hosts and domains to IP addresses and actual machines was launched in 1984. Under this system, DNS information is

[1] Every IP address consists of four numbers, each between 0 and 255, e.g. 245.56.48.125.

spread across the Internet with no one machine maintaining information on all hostnames. Each domain owner maintains information on their own hosts with a central authority maintaining records on where each domain owner keeps their information.

The maintenance of the Internet and the Domain Name System continued under contract to the US Department of Defense, and its agencies, for many years. Then, in 1991, the US National Science Foundation (NSF) assumed responsibility for the non-military portion of the Internet. In 1992, the NSF awarded a US company, Network Solutions Inc. (NSI), a contract for managing the registration of domain names and maintenance of domain name information. After NSI's contract to administer the main top-level domains expired in 1998 a US not-for-profit corporation, the Internet Corporation for Assigned Names and Numbers (ICANN), established by the US Department of Commerce, was charged with taking over the domain name system as well as other Internet infrastructure responsibilities.[2]

Types of Domain Names: General and Country Code Top Level Domains (gTLDs and ccTLDs) [1.2]

Every domain name ends in a top-level domain (TLD) name, which is always either one of a small list of generic names (three or more characters), or a two character territory code based on the ISO-3166 list (there are few exceptions and new codes are integrated on a case by case basis, like recently the European namespace .eu). Top-level domains are also known as first-level domains. The generic top-level domain (gTLD) extensions are: .biz .com .edu .gov .info .int .mil .name .net .org .aero .cat .coop .jobs .mobi .museum .pro .travel .mobi. There are 250[3] country code top-level domain (ccTLD) extensions like .cz, .hu, .eu, .de, .de, .uk, .ru, .tv etc.

In addition to the top-level domains, there are second-level domain (SLD) names. These are the names directly to the left of .com, .eu, and the other top-level domains. As an example, in the domain law.pte.hu, "pte" is the second-level domain. On the next level are third-level domains. These domains are immediately to the left of a second-level domain. In the

[2] Source: http://www.ahref.com/guides/industry/199903/0323piou2.html (retrieved on November 12, 2006)

[3] On November 12, 2006

law.pte.hu example, "law" is a third-level domain. Domains of third or higher level are also known as subdomains.

At this point, reference has to be made to ICANN's role regarding the management of the DNS, since ICANN not only controls the so-called root domain, but delegates control over each top-level domain to a domain name registry. For ccTLDs, the domain registry is typically controlled by the government of that country. ICANN has a consultation role in these domain registries but is in no position to regulate the terms and conditions affecting how a domain name is allocated or who allocates it in each of these country level domain registries. On the other hand, generic top-level domains (gTLDs) are governed directly under ICANN which means all terms and conditions are defined by ICANN with the cooperation of the gTLD registries.[4]

System of Domain Name Registration and Legal Background [1.3]

Name registries, also known as Network Information Centers (NICs) may be operated in many different ways. Some are government departments (like the registry for the Vatican), some are co-operatives of internet service providers (e.g. DENIC in Germany or ISZT in Hungary) or not-for-profit companies (such as Nominet UK). Others are commercial organizations (such as the US registry). The model of the registration, however, is certain under all namespace, for example under the .cz namespace there is the registry CZ.NIC, which maintains the namespace and sets forth the rules thereof and there are several registrars who are accredited by the registry and who provide .cz domain name registrations for registrants who would like to use a certain domain name for their own purposes (e.g. a website, email-services, VoIP etc.). From a legal perspective it should be stressed that there are two contractual relationships; one between the registry and the registrar and one between the registrar and the registrant. This means that there is usually no direct contractual link between the registry and the registrant, although there are some registries which provide registration services directly to registrants.

[4] Recently it was strongly suggested publicly that ICANN should internationalize, in so far as it should be seen as an international public organization and should remove historical contractual links to the US Government and the US Department of Commerce.

Costs of a Domain Name and Its Possible Value [1.4]

According to ICANN, it established market competition for gTLD registrations resulting in an 80% reduction in domain name costs. Without examining the prices of domain names from the middle of the 90's when it was decided that the registrant should pay a fee for domain registration it can be stated that the cost of registration and the maintenance of a domain name (with a few exceptions) could be marginal. Provided that a name has not yet been registered by another party the registration fee would amount to around €10, with the fee for maintenance between €7-€20, even though there are certain ccTLDs under which a domain registration could cost as much as €150-€180.

However, when trying to determine the real market value of a domain name, the above mentioned costs do not mean anything. If we consider recent domain name sales we may conclude that the purchase prices of certain names could exceed several million US dollars. The most expensive names have usually been registered under gTLDs and especially under the .com namespace; they are so-called generic terms, like flowers.com, loans.com, car.com, sex.com etc. Nevertheless the market for ccTLDs looks likely to boom as well.

Well Tried Domains and Newcomers Different Stories, Values and Rules [2]

The Well-Known Domains: .com, .net, .org etc. [2.1]

In 1985 when generic top-level domains were first implemented there were six: .com (commerce), .edu (education), .gov (government), .net (network), .org (organizations), and .mil (military). The .int was introduced three years later. The .com, .net, and .org gTLDs, despite their original different uses, are now in practice open for use by anybody for any purpose and are well-known and popular around the globe. These domains are also referred to as unsponsored domains since they are available from the beginning of the domain name system and there are no real unified registries (except .org); indeed ICANN holds a basic register which records the name and other critical details, in addition to which registrar runs that

name. As a consequence of popularity, for example under the .com namespace more than 57 million[5] domain names were registered in November 2006, which means that the chance of finding a valuable name not registered yet is somewhat minimal. This is related to the fact that under the unsponsored namespaces the first-come-first-served rule applies when granting incoming applications. The lack of prior examination of applications has generated an increasing number of domain name disputes. As such, in 1999 ICANN adopted an alternative dispute resolution (ADR) model the Uniform Domain Name Dispute Resolution Policy (UDRP). This sets out the legal framework for the resolution of disputes between a domain name registrant and a third party (i.e. a party other than the registrar) over the abusive registration and use of an Internet domain name in the gTLDs (.com, .net, .org, .biz, .info and .name).

Other gTLDs [2.2]

Taking growing demand into consideration, in 2000 ICANN announced its selection of seven new gTLDs: .aero, .biz, .coop, .info, .museum, .name and .pro. These are so-called sponsored top-level domains (sTLDs) because they are proposed by an independent agency, with that agency establishing and enforcing rules restricting the eligibility of registrants to use the TLD. One of the youngest gTLD is .mobi, which will be restricted to sites providing services for mobile devices.

Time-Tested and New General and Country Code TLDs [2.3]

The ccTLDs are operated by a range of organizations; some are not-for-profit commercial organisations, others are government departments. Some have signed a contract with ICANN, some have not. These ccTLDs also vary in size, for example .de has some 10 million controlled by DENIC (the .de registry) alone and the .at registry NIC.AT has about 688 thousand, while there are approx. 280 thousand names ending with .hu. Other ccTLDs may have as little as a few hundred.

The registry under a certain ccTLD generally sets policies for the namespace it controls; it may restrict certain names for many reasons, and

[5] Source: domain-recht.de Newsletter No 336

in this respect it can operate rules other than first-come-first-served for new applications (like sunrise periods or waiting lists), although this rule could be found as a subsidiary rule in almost every domain registration policy. Registries usually set the dispute policies for their names; several registries (like UK, Hungary and the EU) adopted their own dispute resolution procedures, while under certain domains (e.g. in Germany) only normal civil courts are available to sue cybersquatters. However, there are many domains under which UDRP is available to object to the use of a domain name by a third party (like Romania), since the registry thereof has adopted the UDRP on a voluntary basis.

Different Registration-Systems
Front and Back Doors for Cybersquatters [2.4]

Cybersquatting is the practice of preemptively registering popular domain names – often the trademarks of third parties – usually in order to rent or sell the domain name back to the owner of the trademark for a value far exceeding the cost of the domain name, or the exploitation of the latter in a different manner. (The term is derived from "squatting", which is the act of occupying an abandoned or unoccupied space or building that the squatter does not own, rent or otherwise have permission to use.)[6]

Domain name registries operate different sorts of systems in order to hand out names. Under the unsponsored gTLDs, registries generally operate a first-come-first-served system of allocation, since these namespaces are coeval with the domain name system. Practically speaking, this means that in the event of somebody applying for a still available .com domain name this could be granted immediately since there is no examination whether the applicant or anybody else has any rights to the name for which they have applied. As a consequence thereof the number of infringing domain names has been considerable under the .com and under other gTLDs as well. Although under several ccTLDs the first-come-first-served rule has a subsidiary function, for example under the .hu namespace a two-week waiting list has been utilized. Furthermore, e.g. under the .com domain, it is possible for cybersquatters to mask their true identity behind proxy services.

[6] CLARK, Christopher G. (2004), *Truth in Domain Names Act of 2003 and a Preventative Measure to Combat Typosquatting*, 89 Cornell L. Rev., 1484

The Cybersquatting "Ecosystem" [3]

Registration of Well-Known Marks by Third Parties for the Purpose of Selling [3.1]

The first domain name disputes started appearing in 1994. At that time the intent of the cybersquatter was usually to sell or rent the name in question back to the owner of the trademark for a lot of money. These activities could be considered as the use of the trademark, even at that time several questions which had not cropped up before were already being raised in connection with trademark infringements on the Internet; for example, as a rule trademarks in the real world are granted for a certain territory (e.g. the US, the EU or for more countries under the Madrid system), though a domain name is available from any country in the world. Furthermore the use of trademarks is limited to certain classes (e.g. vehicles, toys, food etc.), which allows for the same mark to be registered as a trademark in the same country for different products or services. In cyberspace, however, every domain name is unique and cannot be used by different entities for different products or services. In many countries the trademark application is examined by a local authority (trademark office) in many respects, while under the unsponsored gTLDs there is no examination at all. Until the adoption of effective dispute resolution systems this was the classic type of cybersquatting.

Registration of a Name for Disrupting the Activities of a Competitor [3.2]

This is the other classic type of cybersquatting. However, for this case the classic legal instruments, like trademark- and unfair competition laws, have been available and, to be honest, these are far more appropriate for handling such conflicts as arise between competitors (provided that they are acting in the same market and in the same territory). For example, the Hungarian case of the leading search service provider could be cited. Its domain name under the .hu namespace had been used by a Hungarian entity, which also provided its own search services under this name. The multi recently sued its Hungarian competitor for trademark infringement with success, the court granting a preliminary injunction and eventually an

out of court settlement being concluded between the parties. Today the US firm's service is available under the contested domain name.

Mass Registration of Domain Names, Especially in the Event of Introducing New TLDs, and Holding Them for Ransom [3.3]

This misuse appears when new TLDs are introduced since the cybersquatters would like to grab the valuable names. The registries of these new domains do their best to prevent such cases with often so-called sunrise periods preceding the open registration periods. Cybersquatters, however, are very experienced in finding the back-stairs. Furthermore, even if a sunrise period fulfills its aim and the owners of trademarks and other rights receive their names, the cybersquatters goal is to obtain the valuable generic names (like cars, flowers, business, sex etc.), which usually do not infringe other parties rights. This misuse is also known as warehousing.

Registration of Large Numbers of Domain Names and Filling Them with Online Ads Aimed at Generating Click-through Revenues [3.4]

This issue is not a type of cybersquatting as such, but nonetheless bears a strong relationship to it, since it established the opportunity to offset the registration cost of a domain name by gains from advertisements. The pattern is the following: the holder of the domain name does not upload any content under the domain name but enters into a contract (usually via webforms) with a provider who displays automatically different advertisements and links under the name. These are targeted to the predicted interests of the visitor and usually change dynamically based on the results that visitors click on. Usually the domain owner is paid based on how many links have been visited (e.g. pay per click) and on how beneficial those visits have been.

Typosquatting [3.5]

Typosquatting is the intentional misspelling of words with intent to intercept and siphon off traffic from its intended destination, by preying on

Internauts who make common typing errors.[7] Generally, a frequently visited website is the victim of a typosquatter who may have registered a common misspelling of the intended site, a misspelling based on typing errors, a differently phrased domain name or the domain name under a different top-level domain. The user visiting this site may think that they have retrieved the intended site; or the typo domain name is parked and forwarded to a site operated by the pay per click technique. In practice the operators of phising sites, who attempt to fraudulently acquire sensitive information such as passwords and credit card details by representing themselves as a trustworthy person or business, show a presence for using such domain names.

Domain-Tasting a.k.a. Domain-Kiting [3.6]

Under the ICANN-regulated gTLDs domain-tasting allows one to maximize one's income from a domain name portfolio. This is the practice of registrants using the period at the beginning of a domain registration to test the marketability of a domain name. During this period, when registration can be fully refunded by the domain registry, a cost-benefit analysis is conducted by the registrant on the viability of deriving income from advertisements being placed on the domain's web site. Domain names that are retained are usually successful as they represent domains that were previously used and have since expired, represent typosquatting, or are generic and may receive type-in traffic. These domain names usually derive enough traffic such that advertising revenue exceeds the cost of the registration, so the registrant will pay the registration fee for them. Generally, pay per click advertisements appear on such domain names.

Attempts to Prevent Cybersquatting [4]

New Trend in the Case of Introducing New TLDs Phased Registration ("Sunrise") [4.1]

Nowadays, as mentioned before, if new TLDs are introduced, registries attempt to prevent the registration of well-known names by cybersquatters

[7] TENG, Simon (2005), *Typosquatting – Googkle, Ghoogle, Gfoogle and Gooigle*, Trademark World # 182

by means of sunrise periods. During these periods the registration of particular domain names is reserved to holders of various rights (e.g. trademarks, company names, public bodies). Cybersquatters, however, are very experienced in finding the back-stairs. An infamous example of this was the introduction of the single European domain, under which the duration of the phased registration period was four months. During the first part of phased registration, only owners of registered trademarks and geographical indications, as well as public bodies could apply for the domain names corresponding to their names. During the second part of the phased registration, the names that could be registered in the first part as well as names based on all other prior rights (i.a. unregistered trademarks, trade names, business identifiers, company names, family names) could be applied for. However, cybersquatters applied for trademarks e.g. at the Benelux Office for Intellectual Property, where a registered trademark may be obtained quickly. Then they applied for the valuable names during the first phase of the sunrise period, based on their hot trademarks. With this tactic, for example, a Dutch entity obtained several domain names corresponding to European capitals (e.g. rome.eu, budapest.eu, paris.eu). Therefore, under the new mobile domain .mobi, the registry tried to prevent such attempts by stating that the registrants could base their applications only on trademarks registered before the date of the disclosure of the policy.

As far as .eu is concerned, another fiasco has been evidenced. As the sunrise period finished, the landrush started on 7 April, 2006. EURid, the registry of the European domain, is supposed to allow every EU citizen and entity a fair chance of obtaining any name which had not been applied for in the sunrise phase and as such set up a system, in which each registrar would only be allowed to submit one application within a certain period of time. However, cybersquatters set up hundreds of separate registrars so they could apply for hundreds of domains in a second. For example three companies set up 400 offshore registrars in New York. It was no surprise then that after many domain names registered by cybersquatters, these .eu names have appeared on auction portals and the cybersquatters are making millions out of people who desire to have a certain European domain name.

Taking such above mentioned misuse into account, EURid suspended over 74,000 .eu domains registered by these three entities through their 400

registrars; EURid claimed these domains were registered directly by these registrars, not on behalf of clients, an activity which is considered by EURid as warehousing for later resale and thereby violates EURid's terms. With this suspension EURid managed to avoid suing them abroad, indeed they have been forced to file a claim against EURid in Brussels. In their claim the three registrars objected to the suspension of their 74,000 domain names. The Belgian court recently passed an unexpected preliminary decision, namely deciding that unless EURid unlocked the suspended names it would have to pay a fine of approx. €25,000 per hour for each name. The court considered EURid's move unlawful since, according to one of the regulations governing the European namespace, EURid desired to lay down a procedure according to which the latter would have contacted the three entities before the suspension of the names and should have afforded them an opportunity to take appropriate measures. EURid failed to do so however. A final verdict has not been reached yet though.

A More or Less Working Approach: The Hungarian Two-Week Waiting List and the Consulting Board [4.2]

Under Hungarian namespace there are two kinds of applications: priority and non-priority applications. If the applicant has a trademark regarding the domain name applied for, its application shall be granted without delay (priority application). Contrary to this, a non-priority application is kept publicly announced on the registry's web server for 14 days and it shall be granted only in the event that no objections are received during these two weeks. If anybody objects to the delegation the Consulting Board attached to the registry and consisting of invited independent experts shall decide whether the application shall be granted.

Cybersquatting Happens – Dispute Resolution [5]

A Special Procedure: Dispute Resolution During Phased Registration Periods [5.1]

As mentioned above, registries of newly introduced TLDs do their best to prevent cybersquatting cases arising, establishing alternative dispute resolution (ADR) procedures next to sunrise periods. For example, if there

had been more applicants for the same .eu domain name during the sunrise period, the applicants who failed would have been provided with the possibility to file a sunrise ADR against the decision of the EURid in which the former applicant's application had been granted. The Prague-based Arbitration Court attached to the Economic Chamber of the Czech Republic and Agricultural Chamber of the Czech Republic (the Czech Arbitration Court) has been charged with the settling of such disputes.

The Proven Way of Dispute Resolution: The UDRP [5.2]

In 1994, when the first domain name disputes appeared, along with these new trademark infringement cases came questions on how a legal system should handle the Internet and domain name disputes. After a temporary attempt,[8] ICANN accepted the Uniform Domain Name Dispute Resolution Policy (UDRP) in 1999.[9] First, UDRP is available under gTLDs (.com, .net, .org, .biz, .info and .name), and under those ccTLDs that have adopted the Policy on a voluntary basis. Second, it is available only for trademark owners. Third, no monetary damages are available since only the cancellation or the transfer of the domain name may be requested. Furthermore, if either party disagrees with the arbitrator's decision they may still file a civil action in court. The complainant shall assert that the (i) contested domain name is identical or confusingly similar to a trademark or service mark in which the complainant has rights; and (ii) the registrant (the respondent) has no rights or legitimate interests in respect of the domain name; and (iii) the domain name has been registered and is being used in bad faith by the Respondent.[10] There are four organizations that are entitled to provide dispute resolution under UDRP.[11] The UDRP has been much in demand, on October 16, 2006 WIPO, one of the providers, handled its

[8] The dispute resolution policy developed by NSI allowed a trademark owner to place a domain name it felt was infringing „on-hold" while a dispute was pending

[9] See KILPATRICK, Diane L. (2002), *ICANN Dispute Resolution vs. Anti-Cybersquatting Consumer Protection Act Remedies: Which Makes More "Cents" for the Client?,* Houston Business and Tax Law Journal, Vol II. 284

[10] Some acts that qualify as bad faith include the registrant registering the domain name for the purpose of: (i) transferring the domain name to the trademark owner; (ii) preventing the trademark owner from using its mark as a domain name; (iii) disrupting the trademark owner's business; or (iv) attracting consumers by creating a likelihood of confusion

[11] The Asian Domain Name Dispute Resolution Centre (ADNDRC), the International Institute for Conflict Prevention and Resolution (CPR), the National Arbitration Forum (NAF) and the World Intellectual Property Organization (WIPO)

25,000th domain name case. The benefits of UDRP are among others its quick resolution since the dispute providers usually decide on the merits within 45-50 days. Furthermore, the cost of the UDRP is considered low.[12]

Improved Policies, Focusing on the .eu Alternative Dispute Resolution [5.3]

As a recently introduced domain, the .eu has been also equipped with its own ADR policy. Its key points are included in the Commission Regulation No 874/2004 (Public Policy Rules) and are very similar to the key points of the UDRP. However, according to the PPR, not only trademark owners, but also owners of other prior rights (trade names, business identifiers, company names, family names etc.) are entitled to submit a complaint. Another difference is that the domain name should be identical or confusingly similar to a name in respect of which prior rights exist, and where it (i) has been registered by its holder without rights or legitimate interest in the name; or (ii) has been registered or is being used in bad faith. So, contrary to the UDRP, on the one hand the complainant shall demonstrate only either bad faith registration or use, on the other hand they could be successful even if they cannot prove the abovementioned factors (bad faith use and/or registration), but could attest that the respondent registered the name without rights or legitimate interest in the name. Normal .eu disputes are managed by the Czech Arbitration Court as well. Their cost starts from €1,990. Only the cancellation or the transfer of the contested name is available for the complainant and any party could challenge the decision by filing a claim in certain courts.

Traditional Litigation [5.4]

As a main rule, the registration agreement between the registrar and the registrant includes a clause, according to which the registrant subjects himself to the ADR arbitration. Then the third party who might feel the domain name unlawful could choose between ADR and filing a claim under the jurisdiction of a civil court. However, even if a dispute is decided in an

[12] On November 6, 2006 USD 1,500 applied in connection with UDRP procedures administered by the WIPO

ADR procedure parties are able to challenge the decision before a national court based on the legal provisions of the country in question. In this respect laws and practice vary from country to country but the US legislature regarding domain names has some further peculiarities.

The Anti-Cybersquatting Consumer Protection Act (ACPA), passed in 1999, requires a bad faith element too, similar to the one under the UDRP, but with an intent to profit; however, the ACPA applies only if the mark is distinctive or famous. Furthermore, the in rem action is also provided, which allows for suing the domain name itself if the registrant cannot be found. Further differences include if a person's name does not qualify as a trademark (like celebrities) then the person can use the ACPA but cannot use the UDRP; the ACPA applies to all TLDs provided that US jurisdiction can be established, and under the ACPA there is not just the cancellation or the transfer of the domain name available but money damages as well.

However, the Truth in Domain Names Act, enacted in 2003, goes beyond ACPA's remedies. It criminalizes the act of knowingly using a misleading domain name on the Internet with the intent to deceive a person into viewing material constituting obscenity. The act imposes criminal punishment on violators in the form of a substantial fine or imprisonment for up to two years. Furthermore, where the deceptive domain name targets children, the act doubles the term of imprisonment to four years.[13] John Zuccarini, an infamous American cybersquatter, who was held liable under the ACPA several times, served time in federal prison for violating the Truth in Domain Names Act. Zuccarini redirected domains targeting children to pornographic websites.

[13] CLARK, Christopher G. (2004), *Truth in Domain Names Act of 2003 and a Preventative Measure to Combat Typosquatting*, 89 Cornell L. Rev., 1481-1482